

LOS RIOS COMMUNITY COLLEGE DISTRICT

Audit Report

MANDATE REIMBURSEMENT PROCESS PROGRAM

Chapter 486, Statutes of 1975, and
Chapter 1459, Statutes of 1984

July 1, 1998, through June 30, 2002



STEVE WESTLY
California State Controller

June 2004



STEVE WESTLY
California State Controller

June 24, 2004

Brice W. Harris, Chancellor
Los Rios Community College District
1919 Spanos Court
Sacramento, CA 95825

Dear Mr. Harris:

The State Controller's Office (SCO) has completed an audit of the claims filed by Los Rios Community College District for costs of the legislatively mandated Mandate Reimbursement Process Program (Chapter 486, Statutes of 1975, and Chapter 1459, Statutes of 1984) for the period of July 1, 1998, through June 30, 2002.

The district claimed \$64,006 for the mandated program. Our audit disclosed that \$54,002 is allowable and \$10,004 is unallowable. The unallowable costs occurred because the district claimed unsupported costs. The district was paid \$59,143. The amount paid in excess of allowable costs claimed totals \$5,141.

The SCO has established an informal audit review process to resolve a dispute of facts. The auditee should submit, in writing, a request for a review and all information pertinent to the disputed issues within 60 days after receiving the final report. The request and supporting documentation should be submitted to Richard J. Chivaro, Chief Counsel, State Controller's Office, Post Office Box 942850, Sacramento, CA 94250-0001. In addition, please provide a copy of the request letter to Jim L. Spano, Chief, Compliance Audits Bureau, State Controller's Office, Division of Audits, Post Office Box 942850, Sacramento, California 94250-5874.

If you have any questions, please contact Mr. Spano at (916) 323-5849.

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:jj

cc: (See page 2)

cc: Jon Sharpe

Vice Chancellor

Finance and Administration

Los Rios Community College District

Carrie Bray

Director of Accounting Services

Los Rios Community College District

Ed Monroe, Program Assistant

Fiscal Accountability Section

Chancellor's Office

California Community Colleges

Jeannie Oropeza, Program Budget Manager

Education Systems Unit

Department of Finance

Charles Pillsbury

School Apportionment Specialist

Department of Finance

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Officials.....	3
Restricted Use	3
Schedule 1—Summary of Program Costs	4
Finding and Recommendation	6
Attachment—District’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by Los Rios Community College District for costs of the legislatively mandated Mandate Reimbursement Process Program (Chapter 486, Statutes of 1975, and Chapter 1459, Statutes of 1984) for the period of July 1, 1998, through June 30, 2002. The last day of fieldwork was March 11, 2004.

The district claimed \$64,006 for the mandated program. The audit disclosed that \$54,002 is allowable and \$10,004 is unallowable. The unallowable costs occurred because the district claimed unsupported costs. The district was paid \$59,143. The amount paid in excess of allowable costs claimed totals \$5,141.

Background

Chapter 486, Statutes of 1975, established the Board of Control's authority to hear and make determinations on claims submitted by local governments that allege costs mandated by the State. In addition, Chapter 486 contains provisions authorizing the SCO to receive, review, and pay reimbursement claims for mandated costs submitted by local governments.

Chapter 1459, Statutes of 1984, created the Commission on State Mandates (COSM), which replaced the Board of Control with respect to hearing mandated cost claims. This law established the "sole and exclusive procedure" by which a local agency or school district is allowed to claim reimbursement as required by Article XIII B, Section 6, of the California Constitution, for state mandates under *Government Code* Section 17552.

Together, these laws establish the process by which local agencies receive reimbursement for state-mandated programs. As such, they prescribe the procedures that must be followed before mandated costs are recognized. They also dictate reimbursement activities by requiring local agencies and school districts to file claims according to instructions issued by the SCO.

On March 27, 1986, COSM determined that local agencies and school districts incurred "costs mandated by the State" as a result of Chapter 486, Statutes of 1975, and Chapter 1459, Statutes of 1984. Specifically, COSM found that these two statutes imposed a new program by requiring local governments to file claims to establish the existence of a mandated program and to obtain reimbursement for the costs of mandated programs.

Parameters and Guidelines, originally adopted by COSM on November 20, 1986, establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist local agencies and school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

The audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Mandate Reimbursement Process Program (Chapter 486, Statutes of 1975, and Chapter 1459, Statutes of 1984) for the period of July 1, 1998, through June 30, 2002.

The auditors performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority provided by *Government Code* Section 17558.5. The SCO did not audit the district's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the district's internal controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

The audit disclosed an instance of noncompliance with the requirements outlined above. This instance is described in the accompanying Summary of Program Costs (Schedule 1) and in the Finding and Recommendation section of this report.

For the audit period, Los Rios Community College District claimed \$64,006 for costs of the legislatively mandated Mandate Reimbursement Process Program. The audit disclosed that \$54,002 is allowable and \$10,004 is unallowable.

For fiscal year (FY) 1998-99, the district was paid \$4,867 by the State. The audit disclosed that the entire amount is allowable.

For FY 1999-2000, the district was paid \$28,469 by the State. The audit disclosed that \$19,640 is allowable. The amount paid in excess of allowable costs claimed, totaling \$8,829, should be returned to the State.

For FY 2000-01, the district was paid \$17,289 by the State. The audit disclosed that \$14,070 is allowable. The amount paid in excess of allowable costs claimed, totaling \$3,219, should be returned to the State.

For FY 2001-02, the district was paid \$8,518 by the State. The audit disclosed that \$15,425 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$6,907, will be paid by the State based on available appropriations.

**Views of
Responsible
Official**

The SCO issued a draft audit report on May 5, 2004. Jon Sharpe, Vice Chancellor, Finance and Administration, responded by letter dated May 24, 2004, disagreeing with the audit results. The district's response is included in this final audit report. After further review, Finding 2 of the draft audit report was deleted.

Restricted Use

This report is solely for the information and use of Los Rios Community College District, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 1998, through June 30, 2002

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 1998, through June 30, 1999</u>			
Salaries and benefits	\$ 3,449	\$ 3,449	\$ —
Travel and training	—	—	—
Contracted services	370	370	—
Subtotals	3,819	3,819	—
Indirect costs	1,048	1,048	—
Subtotals	4,867	4,867	—
Less offsetting savings/reimbursements	—	—	—
Total costs	<u>\$ 4,867</u>	4,867	<u>\$ —</u>
Less amount paid by the State		(4,867)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>July 1, 1999, through June 30, 2000</u>			
Salaries and benefits	\$ 11,190	\$ 4,419	\$ (6,771)
Travel and training	1,188	1,188	—
Contracted services	9,454	9,454	—
Subtotals	21,832	15,061	(6,771)
Indirect costs	6,637	4,579	(2,058)
Subtotals	28,469	19,640	(8,829)
Less offsetting savings/reimbursements	—	—	—
Total costs	<u>\$ 28,469</u>	19,640	<u>\$ (8,829)</u>
Less amount paid by the State		(28,469)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (8,829)</u>	
<u>July 1, 2000, through June 30, 2001</u>			
Salaries and benefits	\$ 7,651	\$ 6,757	\$ (894)
Travel and training	228	228	—
Contracted services	4,888	4,888	—
Subtotals	12,767	11,873	(894)
Indirect costs	2,478	2,197	(281)
Subtotals	15,245	14,070	(1,175)
Less offsetting savings/reimbursements	—	—	—
Total costs	<u>\$ 15,245</u>	14,070	<u>\$ (1,175)</u>
Less amount paid by the State		(17,289)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (3,219)</u>	

Schedule 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u> ¹
<u>July 1, 2001, through June 30, 2002</u>			
Salaries and benefits	\$ 6,796	\$ 6,796	\$ —
Travel and training	1,169	1,169	—
Contracted services	<u>5,013</u>	<u>5,013</u>	<u>—</u>
Subtotals	12,978	12,978	—
Indirect costs	<u>2,447</u>	<u>2,447</u>	<u>—</u>
Subtotals	15,425	15,425	—
Less offsetting savings/reimbursements	<u>—</u>	<u>—</u>	<u>—</u>
Total costs	<u>\$ 15,425</u>	15,425	<u>\$ —</u>
Less amount paid by the State		<u>(8,518)</u>	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 6,907</u>	
<u>Summary: July 1, 1998, through June 30, 2002</u>			
Salaries and benefits	\$ 29,086	\$ 21,421	\$ (7,665)
Travel and training	2,585	2,585	—
Contracted services	<u>19,725</u>	<u>19,725</u>	<u>—</u>
Subtotals	51,396	43,731	(7,665)
Indirect costs	<u>12,610</u>	<u>10,271</u>	<u>(2,339)</u>
Subtotals	64,006	54,002	(10,004)
Less offsetting savings/reimbursements	<u>—</u>	<u>—</u>	<u>—</u>
Total costs	<u>\$ 64,006</u>	54,002	<u>\$(10,004)</u>
Less amount paid by the State		<u>(59,143)</u>	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (5,141)</u>	

¹ See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Unallowable salaries and benefits

The district claimed unallowable salaries and benefits totaling \$7,665 for FY 1999-2000 and FY 2000-01. The related indirect cost is \$2,339, based on the indirect cost rate claimed during each fiscal year.

The district was unable to provide supporting documentation for hours claimed by various employees during the two fiscal years. In addition, the district's records did not support the productive hourly rate claimed for various employees. The audit adjustment is summarized below:

	Fiscal Year		Total
	1999-2000	2000-01	
Salaries	\$ (6,771)	\$ (894)	
Indirect cost rate	× 30.40%	× 31.45%	
Related indirect costs	(2,058)	(281)	\$ (2,339)
Salaries (from above)	<u>(6,771)</u>	<u>(894)</u>	<u>(7,665)</u>
Audit adjustment	<u>\$ (8,829)</u>	<u>\$ (1,175)</u>	<u>\$ (10,004)</u>

Parameters and Guidelines states that all costs claimed shall be traceable to source documents, such as employee time records, that show evidence of the validity of such costs and their relationship to the mandated program.

Recommendation

The district should maintain source documents that support all employee hours claimed. In addition, the district should ensure that productive hourly rates claimed are supported by the district's accounting records.

District's Response

The finding is based upon the report's assertion that the "*Parameters and Guidelines* states that all costs claimed shall be traceable to source documents, such as employee time records, that show evidence of the validity of such costs and their relationship to the mandated program."

The *Parameters and Guidelines*, as amended and adopted on October 25, 2001, actually provides "... all costs claimed shall be traceable to source documents (e.g., employee time records, invoices, receipts, purchase orders, contracts, worksheets, calendars, declarations, etc.) that show evidence of the validity of such costs and their relationship to the state-mandated program."

It would appear that the report has overlooked the availability of invoices, receipts, purchase orders, contracts, worksheets, calendars, and declarations. It would therefore appear that this finding is based upon the wrong standard for review.

SCO's Comment

The finding and recommendation are unchanged. The district did not respond to the issue of unsupported productive hourly rates claimed. The reference to *Parameters and Guidelines* in the audit finding is not shown as a direct quote and does not rule out other types of corroborating evidence. Therefore, the criterion cited is valid. The district did not provide any additional evidence to support the unallowable hours.

**Statute of
Limitations**

The district's response to the draft audit report included comments regarding the SCO's authority to audit costs claimed for FY 1998-99 and FY 1999-2000. The district's response and the SCO's comment are as follows.

District's Response

The district's 1998-1999 claim was filed on January 13, 2000. The district's 1999-2000 claim was filed on January 16, 2001. The draft audit report is dated May 2004. These two claims were only subject to audit until December 31, 2002 and December 31, 2003, respectively. Therefore, the proposed audit adjustments for these years are barred by statute of limitations set forth in Government Code Section 17558.5.

SCO's Comment

Our audit scope remains unchanged. *Government Code* Section 17558.5(a), effective July 1, 1996, states, "A reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter is subject to audit by the Controller no later than two years after the end of the calendar year in which the reimbursement claim is filed or last amended." There is no statutory language defining when an audit report must be issued. Furthermore, there is no statutory language requiring an entrance conference or some other formal event to be held before the two-year period expires. SCO staff contacted the district to initiate the audit in December 2002, within the statute of limitations. At the district's request, the audit started in January 2003, rather than December 2002. *Government Code* Section 17558.5(c), effective July 1, 1996, states, "Nothing in this section shall be construed to limit the adjustment of payments . . . when a delay in the completion of an audit is the result of willful acts by the claimant or inability to reach agreement on terms of final settlement."

**Attachment—
District's Response to
Draft Audit Report**

LOS RIOS COMMUNITY COLLEGE DISTRICT



SACRAMENTO CITY COLLEGE

AMERICAN RIVER COLLEGE

COSUMNES RIVER COLLEGE

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

May 24, 2004

Mr. Jim L. Spano, Chief
Compliance Audits Bureau
California State Controller
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Mandate Reimbursement Audit

Dear Mr. Spano:

This letter is the response of Los Rios Community College District to the letter of Vincent P. Brown dated May 5, 2004 which enclosed a Draft Copy of your Audit Report of the district's Mandate Reimbursement Process program, Chapter 486, Statutes of 1975 and Chapter 1459, Statutes of 1984, for the period of July 1, 1998 through June 30, 2002.

Statute of Limitations

The district's 1998-1999 claim was filed on January 13, 2000. The district's 1999-2000 claim was filed on January 16, 2001. The draft audit report is dated May 2004. These two claims were only subject to audit until December 31, 2002 and December 31, 2003, respectively. Therefore, the proposed audit adjustments for these years are barred by the statute of limitations set forth in Government Code Section 17558.5.

Finding 1 - Unallowable Salaries and Benefits

The report claims that the district was unable to provide supporting documentation for hours claimed by various employees during the 1999-2000 and 2000-01 fiscal years. The report further claims that the district's records did not support the productive hourly rate claimed for various employees.

The finding is based upon the report's assertion that the "*Parameters and Guidelines* states that all costs claimed shall be traceable to source documents, such as employee time records, that show evidence of the validity of such costs and their relationship to the mandated program."

Jim L. Spano, Chief
Compliance Audits Bureau
May 24, 2004

The Parameters and Guidelines, as amended and adopted on October 25, 2001, actually provides "...all costs claimed shall be traceable to source documents (e.g., employee time records, invoices, receipts, purchase orders, contracts, worksheets, calendars, declarations, etc.) that show evidence of the validity of such costs and their relationship to the state-mandated program."

It would appear that the report has overlooked the availability of invoices, receipts, purchase orders, contracts, worksheets, calendars, and declarations. It would therefore appear that this finding is based upon the wrong standard for review.

Finding 2 - Overstated Indirect Cost Rates Claimed

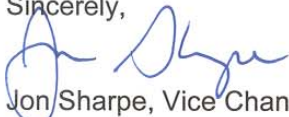
The report states that the district claimed indirect costs based on indirect cost rate proposals (ICRP) prepared for each fiscal year but that the district did not obtain federal approval for its ICRPs.

The report incorrectly claims that the "*Parameters and Guidelines* states that indirect costs may be claimed in the manner described in the SCO claiming instructions." The Parameters and Guidelines, as amended to be effective on October 26, 2001, and applicable to fiscal years 1995-96, 1996-97, 1997-98, 1998-99, 1999-00, 2000-01, and 2001-02 only, states that "Community College Districts must use one of the following three alternatives: a. An ICRP based on OMB Circular A-21; b. The State Controller's FAM-29C which uses the CCFS-311; or c. Seven percent (7%)." The Parameters and Guidelines do not mention the SCO claiming instructions.

The State Controller's Claiming Instructions, at the Instructions for Form MRP-1, line (06), states "Community college districts may use the federally approved OMBA-21 rate, the rate computed using Form FAM 29C, or a 7% indirect cost rate, for the fiscal year of costs." The burden should be on the State Controller to show that the IRCP used by the district would not be approved by the federal government, since the State Controller is required to pay claims and may only reduce a claim upon a determination that the claim is excessive or unreasonable. Government Code Section 17651(d)(2)

Therefore, for the reasons stated above, Los Rios Community College District requests that the audit report be changed to comply with the law and to defer any request for payment until the audit report is corrected.

Sincerely,



Jon Sharpe, Vice Chancellor
Finance and Administration
Los Rios Community College District

C: Brice Harris, Chancellor
Carrie Bray, Director of Accounting Services

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>